ANNUAL REPORT 1976

AMERICAN EAGLE PETROLEUMS LTD.

OFFICERS AND DIRECTORS AND THEIR PRINCIPAL OCCUPATIONS

Dallas E. Hawkins II, Calgary, Alberta
Chairman of the Board of Directors & Director
President of Oakwood Petroleums Ltd.,
Oil and Gas Company.

Gerhard Kasdorf, Calgary, Alberta
President & Director
Vice-President of Oakwood Petroleums Ltd.

Brian G. McCombe, Calgary, Alberta
Secretary & Director
Partner with McCombe, Cameron & Cormie,
Barristers and Solicitors

Brian S. Ekstrom, Calgary, Alberta
Treasurer & Director
Vice-President of Oakwood Petroleums Ltd.
President of Brian Ekstrom Management Ltd.,
Management Company.

L. Lamont Gordon, Montreal, Quebec
Director
President of Gordon Securities Ltd.,
Broker-Dealer.

Gerald E. Naylen, Regina, Saskatchewan
Director
Partner with Hleck, Kanuka & Co., Barristers and
Solicitors

Trudy V. Kerr, Calgary, Alberta
Assistant Secretary

Head Office
220 One Calgary Place, 330 - 5th Avenue S.W.,
Calgary, Alberta T2P 0L4

Subsidiary Companies
American Eagle Petroleums, Inc.
Gull Oil & Gas.

Auditors
Thorne Riddell & Co., Calgary, Alberta

Legal Counsel
McCombe, Cameron & Cormie

Banker
The Royal Bank of Canada, Calgary, Alberta

Registrars and Transfer Agent
The Canada Trust Company, Calgary, Alberta
Montreal, Toronto, Regina

Stock Exchange Listings
Montreal Stock Exchange
Toronto Stock Exchange

STATISTICAL SUMMARY

	1976	1975
Crude Oil and Natural Gas Sales	$ 520,936	$ 361,100
Net Earnings (Loss)	(317,826)	(402,243)
Earnings (Loss) per share	(0.08)	(0.09)
Shares Outstanding	4,151,629	4,151,629
Gross Wells Drilled		
Oil	10	3
Gas	15	8
Dry	11	8
Net Reserves		
Oil — Proved and Probable (barrels)	560,400	633,200
Gas — Proved and Probable (million cubic feet)	16,478	9,030
Producing & Non-Producing Property Interests		
Gross Acres	1,985,257	2,070,169
Net Acres	117,836	129,193
Number of Shareholders	880	881

DIRECTORS' REPORT TO SHAREHOLDERS

The Directors of your Company are pleased to present your Company's 1976 Annual Report for the year ended December 31, 1976.

The year 1976 was a very critical year in the growth of your Company and when we look back was a turning point in your Company's development. With the completion of a number of acquisitions, and providing gas sales can be maintained, it is projected that the Company will be in a profit position in 1977.

During 1976 your Company was very active, both in drilling operations and in the acquisition of reserves. We participated in 36 wells resulting in 15 gas wells, 10 oil wells and 11 dry holes. It has been your Company's policy to continue an active drilling program and to acquire additional producing properties wherever possible. This policy will be continued during 1977. Because of the lack of gas markets at the present time your Company will concentrate more towards exploration and drilling in oil prone areas. However, we will continue to monitor the gas situation very closely and acquire gas properties, especially those covered by gas sales contracts.

During 1975 your Company acquired an interest in the Saddle Lake Area of Alberta — this property adding substantially to American Eagle's 1976 cash flow it will continue to be a major contributor to future cash flows as well. It is anticipated that additional drilling will be required in this area during 1977.

Effective January 1, 1977 your Company acquired an interest in the Tide Lake Area. This interest was acquired by American Eagle from Oakwood Petroleums Ltd. and represents a portion of a 46.88% working interest in 49 producing wells and a total of 21,600 gross acres. After reselling a portion of the 46.88% interests purchased to a group of investors, American Eagle and Oakwood each retain a 4.687% working interest. This working interest will increase to 14.063% after payout of the investors.

During 1976 your Company, together with Conventures Limited, Atco Gas & Oil Ltd. and Oakwood Petroleums Ltd. entered into a Farmout Agreement with Amoco Canada Petroleum Company Limited in Township 48, Range 11 W5M on the western edge of the Pembina Field. Since entering into this farmout we have drilled a total of 8 wells, 7 of which are completed as Cardium oil wells and one as a Basal Blairmore gas well. In addition, we have purchased one Cardium oil well from Amoco Canada. Additional drilling in this area can be anticipated during 1977.

During 1976 the Board of Directors received the resignation of C. J. van den Berg from the Board. In addition, L. Lamont Gordon is retiring from the Board. Both of these gentlemen have been of valuable help to the Company and their past services are much appreciated. Neither of these Board positions will be filled at the present time.

Subsequent to year end, the Company entered into an agreement with Guaranty Trust Company to issue a $1,000,000 subordinated debenture repayable over 5 years commencing June 1978. These funds will provide the Company with much needed working capital to complete its current development expenditure commitments, and provide a satisfactory working capital base.

Many thanks are again offered to the shareholders and the staff for their continued belief and enthusiasm which they have shown towards the Company.

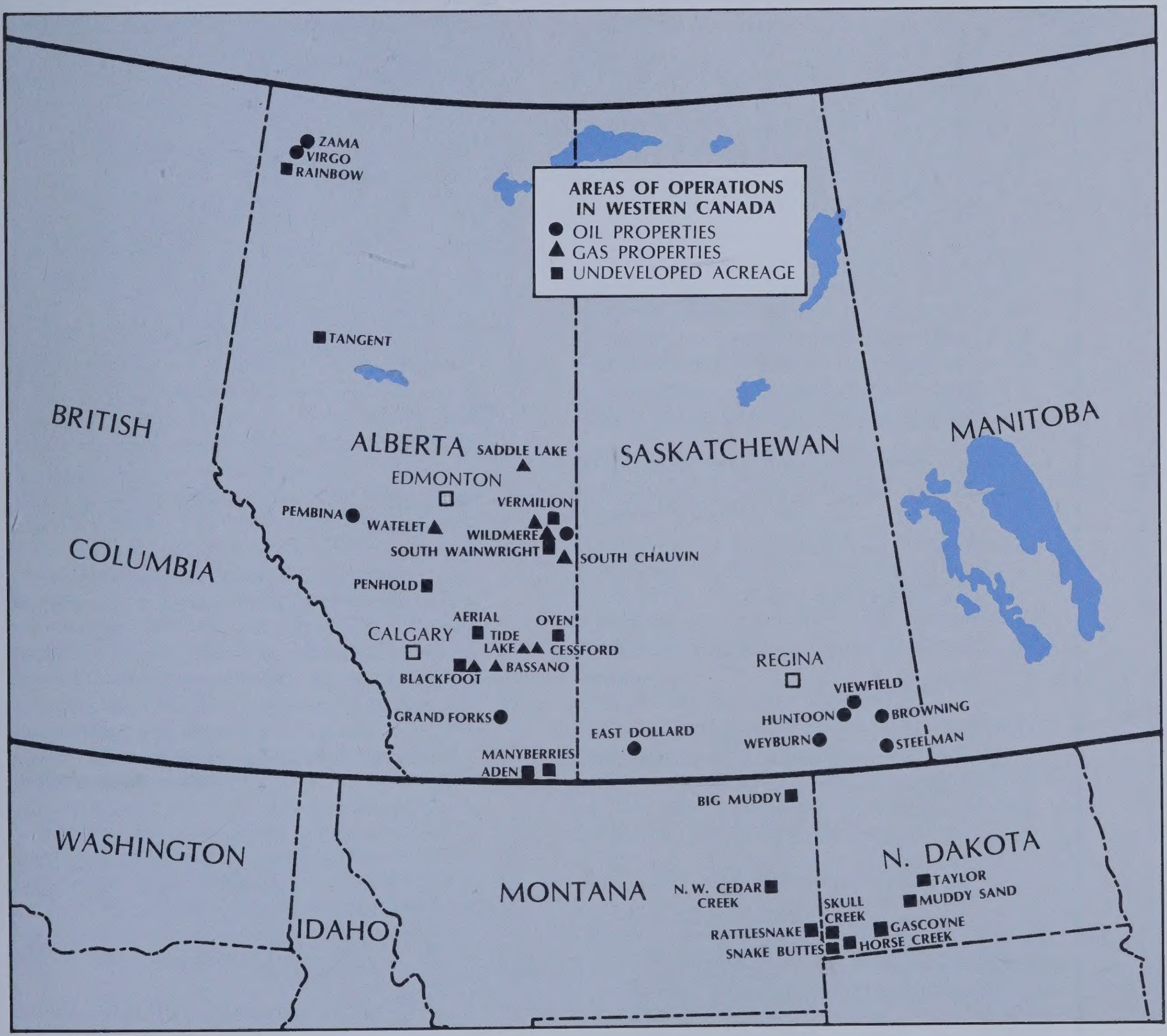
On behalf of the Board of Directors

G. Kasdorf

G. Kasdorf
President

May 31, 1977

AREAS OF OPERATIONS IN WESTERN CANADA



RESERVES

Your Company hired two independent engineering firms to evaluate its properties effective January 1, 1976. The major gas properties were evaluated by Quadra Engineering International Limited and McDaniel Consultants (1965) Ltd. evaluated the oil reserves and the scattered remaining gas reserves.

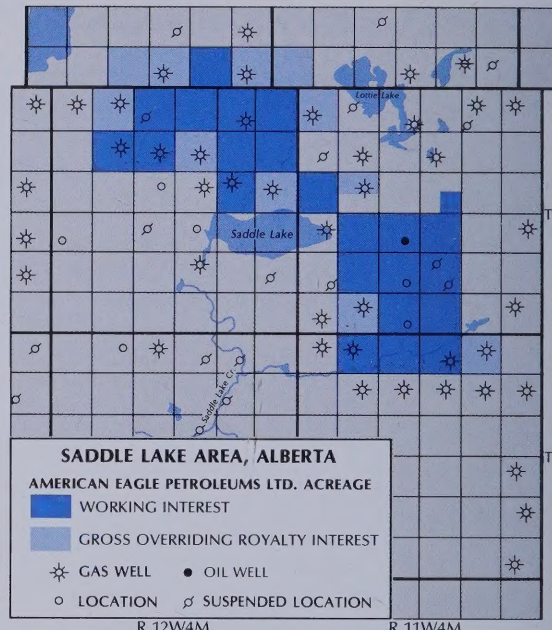
Net proven and probable recoverable oil reserves remaining at January 1, 1977 were estimated to be 560,400 barrels. Net proven and probable gas reserves were 16.5 billion cubic feet. The proven reserves are forecast to generate a future net revenue of $28,746,400 and this net revenue was estimated to have a present worth value of $11,371,000 discounted at 12%. In addition to the reserves which the Company holds, it also has properties with no reserves assigned estimated to have a value of one million dollars. The Company has had a significant increase in reserves during 1976 and it also shows an increase in present worth value of these reserves from approximately 4.0 million dollars to 11.4 million dollars. Further increases in both reserves and present worth value can be expected during 1977 as a result of your Company's continued aggressive drilling and acquisition programs.

PRODUCTION PURCHASES

Saddle Lake Area, Alberta (see Map)

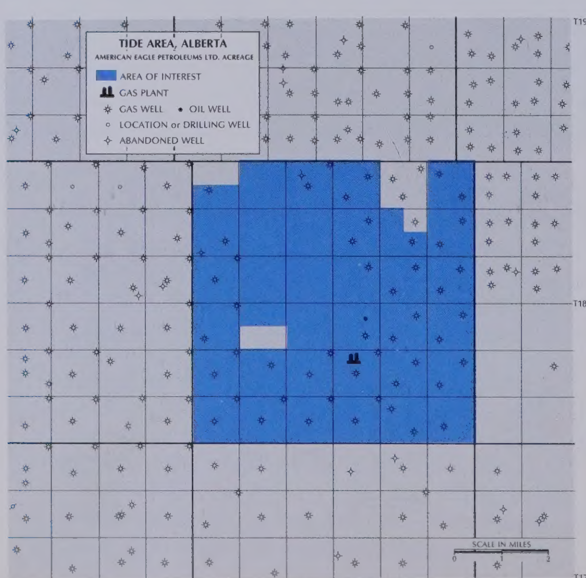
In our 1975 Annual Report we reported that effective November 1, 1975 American Eagle, together with Oakwood Petroleums Ltd. and partners, purchased a 50% working interest in approximately 12,000 acres and a 7.5% gross overriding royalty convertible to a working interest at payout in approximately 9,280 acres, located in Twps. 57, 58 & 59, Rges. 11 & 12 W4M. At the time of purchase there were 14 shut-in gas wells on the properties. However, since that time three additional gas wells have been drilled and completed in which American Eagle participated as to its proportionate interest. American Eagle's net interests in the Saddle Lake properties vary from a 5% to 10% working interest or a 1.5% overriding royalty interest.

The properties are presently producing for the account of American Eagle 1.3 MMcf/d for an average annual net operating income of $300,000. In keeping with your company's principle with respect to the purchase of producing properties, the above figures will substantiate the purchase as a very worthwhile venture yielding an excellent rate of return.



Tide Lake Area, Alberta (see Map)

Effective January 1, 1977 American Eagle joined with Oakwood Petroleums Ltd. in the purchase of a 46.88% working interest in 49 producing gas wells located in Twp. 18, Rge. 10 W4M covering a total of 21,600 gross acres, producing from the Medicine Hat, Milk River and Second White Specks formations. A group of investors participated in the purchase to earn 80% of proceeds from production until recovery of their investment, at which time the American Eagle-Oakwood/investors' interests would convert to a 60/40 ratio. American Eagle and Oakwood have as a partner in the properties — PanCanadian Petroleum Limited which holds a 53.12% working interest.



To summarize the above, American Eagle has a 4.687% working interest converting at payout to a 14.063% working interest in the Medicine Hat and Milk River formations, and a 23.44% working interest in all formations purchased below the base of the Medicine Hat formation.

DEVELOPMENT DRILLING AND EXPLORATION

Wildmere Area, Alberta

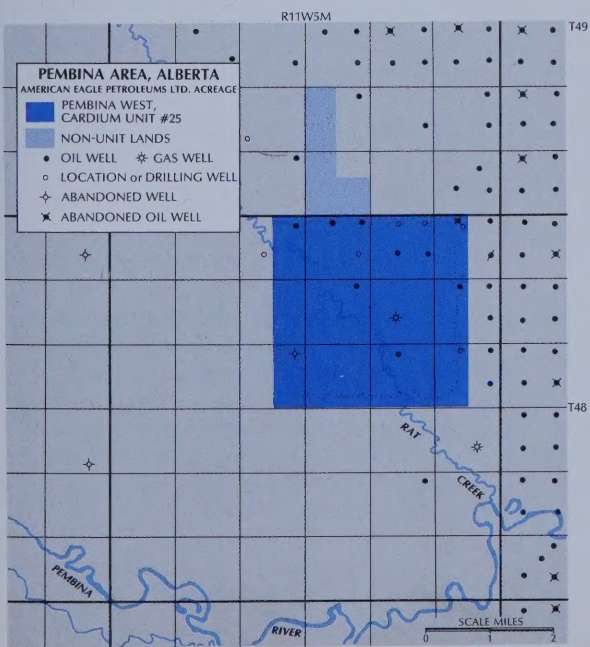
This prospect is located in Twps. 48 & 49, Rges. 6 and 7 W4M where American Eagle holds interests varying from 15% to 100% working interest in approximately 19,200 acres.

In 1976 a total of 11 wells were jointly drilled in the area, three of which were completed as gas wells, three as oil wells, and five being dry and abandoned. In our last report it was indicated that additional wells were required to evaluate the fairly extensive land holdings at that time. It is felt that the recent drilling has served to more precisely evaluate potentially productive lands in the area, and in this respect, certain lands have been selected to be retained and other less

attractive lands have been allowed to expire. It is estimated that the additional drilling has now proved considerable reserves, in the order of 2.2 Bcf gas and 50,000 barrels of recoverable oil. With additional drilling it is hoped that the properties will be placed on production within the not too distant future. However, we may be unable to place the gas on stream prior to November of 1978 due to the fact that the lands are not under a contract at the present time and TransCanada PipeLines Limited are unable to contract any additional gas prior to that time.

Pembina Area, Alberta (see Map)

American Eagle, as operator, together with Oakwood Petroleums Ltd., Conventures Limited and Atco Gas & Oil Ltd. drilled a total of eight wells, seven of which were completed as Cardium oil wells and one as a Basal Quartz gas well. In addition to the wells drilled, one other Cardium oil well was purchased from Amoco Canada Petroleum Company Ltd. American Eagle presently holds a 19.5% working interest in the entire nine section block located in Twp. 48, Rge. 11 W5M. Under the Farmout Agreement the interests earned by the drilling participants are subject only to the Lessor royalty and a 10% gross overriding royalty. The entire nine section block was unitized effective May 21, 1976, as the Pembina West Cardium Unit No. 25, and all said nine sections with respect to the productive zones will therefore remain in good standing until eventual termination of the Unit. An additional adjoining 800 gross acres were subsequently purchased from the Crown in 1976 in which American Eagle participated as to its 19.5% working interest.



Eight wells are presently on production. A recent thorough geological - engineering study has revealed that it is economically justifiable to implement a water flood scheme in the area in order to maximize production. In view of the extensive costs involved in this type of project, your company is presently in the process of determining if such a water flood scheme should be implemented at this time. If this is the case, it is very likely that additional wells will be drilled in the not too distant future.

Other Areas of Interest

In the Connorsville-Lonebutte area of Alberta, located in Twp. 26, Rge. 15 W4M and Twp. 27, Rges. 14 & 16 W4M, three wells were drilled in 1976, two being completed as gas wells and one dry and abandoned.

American Eagle also participated as to its 20% working interest in the drilling of three wells in the Watelet area of Alberta, located in Twp. 47, Rge. 26 W4M. Two of these wells were completed as successful gas wells and one was abandoned.

Including certain of the areas reported elsewhere in this report, your company participated in or purchased a total of 51 wells in the calendar year of 1976, which resulted in 28 gas wells, 11 oil wells and 12 dry and abandoned wells.

These figures however, do not include the Tide Lake purchase of January 1, 1977.

PRICE RANGE OF THE COMPANY'S SHARES FOR THE LAST TWO YEARS

	1976		1975	
Quarter	High	Low	High	Low
First	$ .495	$ .34	$ .53	$ .35
Second	.70	.36	.46	.33
Third	.57	.355	.51	.29
Fourth	.49	.375	.45	.29

MANAGEMENT'S ANALYSIS AND DISCUSSION OF THE SUMMARY OF OPERATIONS

Material changes in the Company's operations between the year ended December 31, 1975 and the year ended December 31, 1976, can be itemized as follows:

1. In 1976 gross revenues rose to $530,336 from $415,862 in 1975. This 27% increase is the result of substantial new production revenues from some of the Company's acquisitions and development programs. The major increase in production revenue came from the Saddle lake area which was acquired by the Company in late 1975. This property came onto production in the summer of 1976, and is now making a major contribution towards the Company's cash flow. Other new properties which contributed to sales revenues in 1976 were the Bassano, Blackfoot, and Wildmere areas.

   The higher prices being received by the producers in Western Canada for both crude oil and natural gas production, also provided some of the increase in revenue in 1976 relative to 1975.

2. Interest charges on corporate debt rose in 1976 to $127,882 from $104,466 in 1975, an increase of approximately 22%. This increase was the result of somewhat higher overall borrowing requirements during 1976 to finance the Company's development programs, and also the somewhat high interest rates which Canadian economy experienced during 1976.

3. Depletion and depreciation provision in 1976 amounted to $176,439 — up from $166,467 in 1975. This increase can be attributed to depletion provision on some of the new production which is discussed in point (1) above.

4. 1976 operations reflect a recovery in the form of Provincial Royalty Tax Credits in the amount of $36,292. This recovery is attributable to credits from the Government of the Province of Alberta on Alberta production from Crown owned lands.

5. Net loss for the year 1976 amounted to $317,826 as compared to $402,243 in 1975. This amounts to a loss of $0.08 per share as compared to $0.09 per share in 1975.

Material changes in the Company's operations between the year ended December 31, 1974 and the year ended December 31, 1975 can be itemized as follows:

1. Gross revenue from oil and gas sales declined from $370,907 in 1974 to $361,100 in 1975 (an approximate 2.6% decline). The primary reason for this decline is that the increase in oil and gas prices was slightly more than offset by a decline in production levels from the Registrant's producing properties.

2. Interest charges on corporate debt declined from $165,593 in 1974 to $104,466 in 1975 (a decrease of approximately 37%). Such decrease was the result of slightly lower interest rates in 1975 and reduction in the level of bank indebtedness for most of 1975.

3. The depletion and depreciation provision was reduced to $166,467 in 1975 from $210,678 in 1974 (an approximate 21% decrease) as a result of the lower levels of production for properties experiencing a decline in production rates.

4. Net loss for the year 1975 amounted to $402,243 as compared to a net income in 1974 of $100,266 (an approximate 501% decrease). The 1974 income figure reflects an extraordinary item of income of $658,349 on the sale of a portion of the Company's gas reserves. Also, 1975 figures include a charge against earnings of $97,719 which is a write-down in the carrying value of Company's investment in E.P.C. Corporation.

CONSOLIDATED STATEMENT OF EARNINGS

YEARS ENDED DECEMBER 31, 1976 AND 1975

	1976	1975
Revenue		
Sales of oil and gas	$ 520,936	$ 361,100
Interest and other	9,400	54,762
	530,336	415,862
Expenses		
Field operating	162,670	128,611
Lease rentals on non-producing properties	43,160	71,178
Exploration	163,515	35,025
Engineering and consulting	53,506	41,912
General and administrative	199,882	181,767
Interest on long-term debt	127,882	104,466
Depreciation and depletion	176,439	166,467
	927,054	729,426
Loss before income taxes and extraordinary item	(396,718)	(313,564)
Income taxes		
Provincial royalty tax credits	36,292	—
Recovery of deferred income taxes	42,600	9,040
	78,892	9,040
Loss before extraordinary item	(317,826)	(304,524)
Extraordinary item		
Write down of investment in E.P.C. Corporation	—	(97,719)
LOSS	$(317,826)	$(402,243)
LOSS PER SHARE		
Loss before extraordinary item	$(0.08)	$(0.07)
Extraordinary item	—	(0.02)
LOSS	$(0.08)	$(0.09)

CONSOLIDATED STATEMENT OF DEFICIT

YEARS ENDED DECEMBER 31, 1976 AND 1975

	1976	1975
DEFICIT AT BEGINNING OF YEAR	$(1,947,482)	$(1,545,239)
Loss	(317,826)	(402,243)
DEFICIT AT END OF YEAR	$(2,265,308)	$(1,947,482)

AMERICAN EAGLE PETROLEUMS LTD.
(Incorporated under the laws of Saskatchewan)

ASSETS

	1976	1975
CURRENT ASSETS		
Cash and term deposits	$ 16,328	$ 406,569
Accounts receivable	813,097	464,420
Receivable from related companies	115,801	51,310
	945,226	922,299
INVESTMENT IN E.P.C. CORPORATION (note 2)	21,442	1
PROPERTY AND EQUIPMENT (note 3)		
Producing petroleum and natural gas leases and rights including development and equipment thereon, at cost	4,135,102	3,023,700
Accumulated depletion and depreciation	1,237,553	1,061,114
	2,897,549	1,962,586
Non-producing properties, at cost	340,198	546,583
	3,237,747	2,509,169
	$4,204,415	$3,431,469

Approved by the Board

Director

Director

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1976 AND 1975

LIABILITIES

	1976	1975
CURRENT LIABILITIES		
Bank indebtedness, secured (note 4)	$ 344,691	$ —
Accounts payable and accrued liabilities	1,226,536	531,648
Current portion of prepayments under gas sales contracts	60,000	26,893
Current maturities on long-term debt	—	126,500
	1,631,227	685,041
PREPAYMENTS UNDER GAS SALES CONTRACTS	147,186	—
LONG-TERM DEBT (note 4)	1,180,000	1,140,000
DEFERRED INCOME TAXES	408,100	450,700

SHAREHOLDERS' EQUITY

	1976	1975
CAPITAL STOCK (note 5)		
Authorized		
20,000,000 common shares without par value		
Issued		
4,151,629 shares	3,103,210	3,103,210
DEFICIT	(2,265,308)	(1,947,482)
	837,902	1,155,728
	$4,204,415	$3,431,469

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEARS ENDED DECEMBER 31, 1976 AND 1975

	1976	1975
WORK CAPITAL DERIVED FROM		
Sale of fixed assets	$ —	$ 1,246
Production bank loan	40,000	—
Prepayments under gas sales contracts	147,186	—
	187,186	1,246
WORKING CAPITAL APPLIED TO		
Operations before extraordinary item	183,987	140,867
Additions to property and equipment	905,017	797,656
Long-term debt, net	—	38,650
Advances to E.P.C. Corporation	21,441	—
Other	—	12,460
	1,110,445	989,633
DECREASE IN WORKING CAPITAL POSITION	(923,259)	(988,387)
WORKING CAPITAL AT BEGINNING OF YEAR	237,258	1,225,645
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR	$ (686,001)	$ 237,258
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increase (decrease) in current assets		
Cash and term deposits	$ (390,241)	$ (858,922)
Accounts receivable	348,677	196,327
Receivable from related companies	64,491	51,310
	22,927	(611,285)
Decrease (increase) in current liabilities		
Bank indebtedness	(344,691)	—
Accounts payable and accrued liabilities	(694,888)	(248,059)
Prepayments under gas sales contracts	(33,107)	(26,893)
Current maturities on long-term debt	126,500	(102,150)
	(946,186)	(377,102)
DECREASE IN WORKING CAPITAL POSITION	$ (923,259)	$ (988,387)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1976 AND 1975

1. ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries all of which are wholly-owned.

(b) Property and Equipment

The Company follows the practice of capitalizing the acquisition costs of both producing and non-producing properties and charging costs to earnings if the property is subsequently surrendered. The cost of drilling a productive well is capitalized and the cost of a non-productive well is charged to earnings when the well is determined to be dry. The costs of producing leases and development thereon are amortized using the unit-of-production method based upon estimated quantities of oil and gas as determined by the Company's engineers.

Equipment is depreciated on a straight-line basis over its estimated useful life at rates varying from 10 to 20 percent per year.

(c) Income Taxes

The Company follows the tax allocation method of accounting whereby the income tax provision is based on the earnings reported in the accounts.

2. INVESTMENT IN E.P.C. CORPORATION

The Company owns 40% of the outstanding shares of E.P.C. Corporation for which there is no quoted market value.

The investment is carried at cost less amounts written off.

	1976	1975
Shares, at cost	$ 80,929	$80,929
Advances	38,232	16,791
	119,161	97,720
Amounts written off	97,719	97,719
	$ 21,442	$ 1

3. PROPERTY AND EQUIPMENT

1976	Cost	Accumulated Depletion and Depreciation	Net
Producing petroleum and natural gas rights including development thereon	$3,254,562	$ 962,793	$2,291,769
Production equipment	857,814	262,413	595,401
Office equipment and improvements	22,726	12,347	10,379
	4,135,102	1,237,553	2,897,549
Non-producing petroleum and natural gas rights including development thereon	265,881	—	265,881
Non-producing mining properties	74,317	—	74,317
	340,198	—	340,198
	$4,475,300	$1,237,553	$3,237,747

1975	Cost	Net	Accumulated Depletion and Depreciation
Producing petroleum and natural gas rights including development thereon	$2,337,156	$ 836,019	$1,501,137
Production equipment	666,328	215,342	450,986
Office equipment and improvements	20,216	9,753	10,463
	3,023,700	1,061,114	1,962,586
Non-producing petroleum and natural gas rights including development thereon	496,183	—	496,183
Non-producing mining properties	50,400	—	50,400
	546,583	—	546,583
	$3,570,283	$1,061,114	$2,509,169

4. LONG-TERM DEBT

	1976	1975
Production bank loans	$1,180,000	$1,140,000
8% Convertible notes	—	126,500
	1,180,000	1,266,500
Less current maturities	—	126,500
	$1,180,000	$1,140,000

The bank indebtedness included in current liabilities and the production bank loans as evidenced by demand promissory notes are secured by specified petroleum and natural gas properties and a first floating charge debenture on all other assets of the Company. The production loans are repayable out of future production proceeds and, accordingly, are not expected to require the use of working capital; therefore, no portion of such loans have been reclassified to current liabilities. Interest is payable at the rate of 1% above the prime rate set from time to time by a Canadian chartered bank.

The estimated principal payments on long-term debt for the next five years are as follows: 1977 — $240,000; 1978 — $240,000; 1979 — $240,000; 1980 — $240,000; 1981 — $220,000.

Reference is made to note 6 — Subsequent Event.

5. CAPITAL STOCK

Common shares have been reserved for issuance as follows:

	Number of Shares	
	1976	1975
Pursuant to a share purchase plan whereby a director may acquire shares at $0.50 each	100,000	100,000
For issuance on exercise of share purchase warrants at $1.50 per share expiring October 22, 1981	300,000	300,000
On conversion of the $126,500 8% convertible notes (not exercised)	—	158,125
	400,000	558,125

6. SUBSEQUENT EVENT

Subsequent to December 31, 1976, the Company entered into an agreement to issue a $1,000,000 subordinated debenture secured by a second floating charge on all assets of the Company. The debenture is repayable over five years by monthly instalments commencing June 1978. Interest is payable at bank prime lending rates plus 1% (minimum 9% - maximum 12½% per year). In addition the debenture holder is to receive a fixed royalty from certain gas properties of $2,500 per month from July 1978 to June 1983 and $1,250 per month from July 1983 to June 1987. Costs in connection with the issue of the debenture are estimated to be $45,000.

7. STATUTORY INFORMATION

During 1976 the Company and its subsidiaries paid no remuneration to the Company's seven directors in their capacity as directors and paid $44,876 (1975 — $33,000) to officers of the Company, who are also directors.

AUDITORS' REPORT

To the Shareholders of
American Eagle Petroleums Ltd.

We have examined the consolidated balance sheet of American Eagle Petroleums Ltd. as at December 31, 1976 and 1975 and the consolidated statements of earnings, deficit and changes in financial position for the years then ended and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the company, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of affairs of the company as at December 31, 1976 and 1975 and the results of its operations and the changes in its financial position for each of the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

In accordance with the requirements of the Saskatchewan Companies Act we report that, in our opinion, all the transactions of the company that have come within our notice have been within the objects and powers of the company.

Calgary, Alberta
April 19, 1977

Thorne Riddell & Co.
Chartered Accountants

AMERICAN EAGLE PETROLEUMS LTD.

ANNUAL REPORT 1976

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